

INVESTING IN THE FARMHOUSE AND SERVICE BUILDINGS

Questions and Answers

Reserve

Intelligent construction and remodeling of the farmhouse and other buildings requires that careful attention be given to a number of economic questions. Among these are: How much can one afford to spend? What factors should be considered in financing the investment? and Is now the time to go ahead? The same careful thought should be given to these questions as to the selection of the best materials, location, and construction. Some of the most important economic problems involved in building which the farm family should consider are:

How much will your building program cost?

Many who have built a house or other farm buildings have been unpleasantly surprised at the total cost when all the bills were paid. The best precaution against any such financial embarrassment is to make a careful advance estimate of all costs. Lumber dealers, contractors, and neighbors who have done some building or remodeling recently can help you make your estimate more accurate.

Final costs frequently prove to be higher than even a careful estimate, so that it may be desirable to add a small percentage to your estimate to cover unforeseen changes and developments. It is better to make your estimate too high than to find out after building that it was too low.

Are you planning to invest too much in the farmhouse and service buildings?

Unfortunately there is no general answer to this vital question. Each family must provide its own answer based on its own situation. As a step in arriving at a sound answer, estimate what your net income is likely to be over the next 7 to 10 years. That is, estimate your total receipts from farm sales and other income, and deduct from that amount expenses for operating the farm and home. This figure, plus savings on hand, will give you an idea of the money you will have available for such things as new buildings, additional land, advanced education for the children or for building up financial reserves. In making your plans do not overlook the fact that increasing your investment in buildings means larger annual costs for such items as taxes, insurance and depreciation.

Should you estimate your need for service buildings in the same way that you would estimate your need for a house?

No. A new barn or other service building should add more to the income of the farm during its life than it costs. If it is not clear that a new service building will increase the net income of the farm there is little excuse for making the investment. These buildings should be considered in

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the same way as improved machinery, better livestock, or other items, which are purchased because they are expected to add to the net income of the farm over a period of years.

A new house, on the other hand, does not usually contribute directly to the cash farm income except when it is used in processing or marketing farm produce. The principal reason we spend money for a modern house is our desire for better living. The question each family has to decide is whether the money it is planning to invest in a better house will contribute more to the health, enjoyment, and advancement of its members than if the money were spent on such things as clothing, a new car, household equipment, education, travel, or entertainment. The essential thing is to keep a good sense of proportion and balance in the family's expenditures for better living and in investments for increasing farm income.

What things will you have to do without if you spend part of your net income on buildings?

Most of us have many more desires than our limited income will satisfy. Before deciding to spend a large proportion of your savings or future income on a new house or other buildings, you should make a priority list of the important things you would like to invest in over the years. Perhaps some of the things you will have to "give up" are really more important to you than the new buildings. You will be much better satisfied if you discover this before, rather than after you have actually spent your money on the new buildings.

Can you reduce the cost of your building program?

Fortunately the farm family does not have to estimate building costs on the basis of purchasing all the materials and hiring all the labor. Many families have made a small amount of cash go a long way by using building materials available on the farm and by doing much of the labor themselves. Such costly work as excavation, pouring cement, rough carpentry, painting, and hauling supplies may be performed by members of the family during periods of slack employment to extend their limited cash. The amount of labor that family members can afford to spend on a building program depends to a large extent on the return that could be obtained for their labor in other farm or nonfarm work.

Will you be able to recover what you have invested if you should sell your farm?

Some families have had the experience of spending substantial sums on improved buildings and later discovering that the sale value of the farm was increased only slightly because of these improvements. The buildings may not suit the personal tastes of the prospective buyer or the type of farming he intends to follow. This is especially apt to be the case if the design, construction, or arrangement varies greatly from the generally accepted pattern or type. Even though you are not planning to sell your farm in the foreseeable future it is well to consider how others would appraise the value of your new or remodeled buildings if they were buying a farm.

Have you given sufficient time to planning the location and interior lay-out of the buildings to save time and energy?

The farm family is not paid on the basis of how hard it works but rather how much it produces for sale. The proper location and arrangement of the house and buildings will mean lower production costs because more work can be accomplished in a given period of time. We often fail to consider how much of the family's time will be spent working in and around the buildings and house during their lifetime. If we properly appreciated this point, we would give a great deal of thought to how to arrange the buildings to make the work easier and less time consuming. Standardized building plans and blueprints can often be adapted to conditions on the individual farm so that the house and farm work can be done with less time and effort.

Should you borrow money for your building program?

Several points need to be considered before you make up your mind on this question. It may be good business to borrow part of the money to carry out your building program if your present savings are insufficient for the purpose. This is particularly true of service buildings, which should add considerably more to the farm income than the cost of interest, repairs, and depreciation. Likewise, if a careful appraisal of future income and expenses indicates that the money for repayment will be available, you would be justified in borrowing for the purpose of building or remodeling a house.

However, the fact that the general price level is higher now than it may be at the time the loan is repaid calls for special precaution in contracting debt at this time. You not only must borrow more dollars to do your building today than may be true several years from now, but it will also take a much larger quantity of farm products to repay the loan should farm prices fall. This danger of having to pay back cheap dollars with dear ones is increased if the loan runs for a number of years. Even so, it is ordinarily desirable to obtain funds through a long-term mortgage if you expect to take several years to repay the loan, rather than to incur the extra cost and risk involved in refinancing on a short-term basis.

In borrowing money, what points should you consider in arranging the loan?

The following six points should be considered if you are arranging for long-term mortgage credit. Only the first three are important if you are financing your program through a short-term loan.

1. Making contact with several lending institutions to obtain the lowest interest rate and other loan costs.
2. Including an agreement for paying back part of the loan at regular periods, with these payments falling due at the time of year when you usually have extra income from the farm business.

3. Providing for the repayment of the loan before it is due, in the event your income is unusually large.
4. Including a provision that would permit you to make extra payments in years of high income to offset lower or no payments in years of poor income. Unfortunately this provision is one of the most difficult ones to obtain at present.
5. Adjusting the amount and length of your loan so that the regular payments on principal, together with the interest on the unpaid balance, will not be too heavy a fixed charge -- especially in lean years.
6. Making the regular payments large enough so that the loan will be repaid within a reasonable number of years, ordinarily within 10 or 12 years at the longest.

Should you postpone your building or remodeling until prices are lower?

With present high prices for material and labor this question is naturally being asked by everyone who is considering building or remodeling. Although building costs may be lower sometime in the future, the important question is, When? The majority opinion at present probably is that building costs will be higher before they are lower and that postponing your building plans for lower prices means waiting for at least a few years. If this view is correct, it suggests that the wise policy would be to proceed with your plans as materials become available unless you are prepared to wait several years before building. This assumes, of course, that your plans were conservative to begin with and that they have been carefully considered in relation to the other aspects of a financially sound building program outlined above.